

**To:** Designated Non-Financial Businesses and Professions (DNFBPs)

## ***Common findings identified from DNFBP AML / TFS onsite assessments in 2024***

### **Background**

The ADGM Registration Authority (“**RA**”) is responsible for registering and licensing all legal persons in ADGM. In addition, the RA registers and supervises Designated Non-Financial Businesses and Professions (“**DNFBPs**”)<sup>1</sup> in ADGM for compliance with the ADGM Anti-Money Laundering and Sanctions Guidance and Rules (“**AML Rules**”), as well as applicable Federal AML Laws (collectively referred to herein as the “**applicable AML obligations**”).

In doing so, the RA adopts a risk-based approach to its supervision of DNFBPs where it utilizes multiple supervisory tools to assess DNFBPs compliance with the applicable AML obligations. These tools include onsite inspections, thematic reviews, desk-based reviews and outreach sessions.

**This report outlines the common findings identified by the RA during onsite assessments of DNFBPs carried out in 2024.**

Whilst there were a variety of findings from the 2024 assessments, this report focuses on the recurring findings that were identified across the majority of firms. While the findings may not apply to all DNFBPs, we encourage all firms to review and use this report as a self-assessment tool to strengthen compliance with applicable AML, CFT and TFS obligations.

### **Onsite Assessment Process**

On an annual basis, the RA prepares a DNFBP supervision plan, where a number of DNFBPs are selected for an onsite assessment during the calendar year. As per the risk-based approach, selection is primarily based on risk but also includes other factors such as sector coverage and follow-up from previous assessments.

Selected firms are notified by the RA in writing prior to the assessment with the intended date of the visit, the scope of the review and documents required to be produced prior to the assessment. Onsite assessments typically range from two to four days depending on the size and activities of the firm and involves meetings with the firm’s senior management and MLRO, as well as reviews and testing of documentation, systems and controls.

Upon completion of the assessment, the RA, through a closing meeting with the firm, issues a Risk Mitigation Plan (RMP) outlining the findings identified from the visit, and where gaps are identified, the firm must respond with its planned remediation actions. The firm’s planned actions must be clear, precise and detailed to describe how the firm intends to close the gaps identified. This includes providing a timeline for closure of each finding.

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<sup>1</sup> Means the following class of Persons who carry out the following businesses in the ADGM: (a) a real estate agency which carries out transactions with other Persons that involve the acquiring or disposing of real property; (b) a dealer in precious metals or precious stones; (c) a dealer in any saleable item of a price equal to or greater than USD15,000; (d) an accounting firm, audit firm, insolvency firm or taxation consulting firm; (e) a law firm, notary firm or other independent legal business; or (f) a Company Service Provider.

It is important to note that the RA's overall conclusion is based on the materiality of the findings rather than the number of findings. The overall conclusion of an onsite assessment is based on the RA's supervision procedure which follows a four (4) point scale, as per the table below.

Description	Overall Conclusion
No shortcomings identified	Satisfactory
Minor shortcomings identified	Moderate Improvements Needed
Moderate shortcomings identified	Major Improvements Needed
Major shortcomings identified	Significant Improvements Needed

Where a firm's onsite assessment conclusion is '*Major Improvements Needed*' or '*Significant Improvements Needed*', the RA will schedule a follow up visit to ensure that all previous findings identified are addressed.

Additionally, the RA considers on a case by case basis the assessments where shortcomings identified will result in also taking enforcement action.

### Assessment Scope

The scope of a DNFBP assessment focuses on evaluating AML and TFS policies, procedures, systems and controls, particularly their application in practice. This includes, but is not limited to, assessing the following:

- AML and Sanctions systems and controls, policies and procedures;
- AML and Sanctions training and awareness;
- Sanctions screening mechanisms (including adoption of the UAE Cabinet Resolution No. 74 of 2020);
- Business risk assessment;
- Customer risk assessment;
- Customer due diligence, and KYC (including review of sample client files); and
- Any outstanding fines or other regulatory issues.

For Company Service Providers ("**CSPs**"), the scope also evaluates CSPs compliance with the ADGM Conditions of Licence under the CSP Framework.

### 2024 DNFBP AML/TFS Onsite Assessment Statistics

In 2024, the RA conducted 32 AML/TFS onsite assessments of DNFBPs in ADGM, of which 29 were planned and 3 were ad hoc visits, up from 25 in 2023 (i.e. a 28% increase).

The assessments covered the range of DNFBP sectors present in ADGM, as follows:

- CSPs,
- Legal Consultancies,
- Real Estate Agents,
- Auditors and Accountants, and
- Dealers of high value goods.

Each assessment resulted in outlining deficiencies identified. This report summaries prevalent issues across these 32 assessments reports as follows.

## Key Findings – Summary

The following is a summary of the common findings from the AML/TFS assessments carried out on DNFBPs by the RA in 2024.

1. Inadequate Enhanced Customer Due Diligence (Enhanced CDD). This includes: <ul style="list-style-type: none"> <li>a. Insufficient verification of source of funds and source of wealth. For example, reliance on outdated bank statements to establish and verify source of funds and source of wealth as part of enhanced customer due diligence, and</li> <li>b. Failure to obtain senior management approval to on-board high-risk customers.</li> </ul>
2. Failure to consider TFS risks as part of a Firm's Business Risk Assessment.
3. Failure to document reviews of the effectiveness of the firm's AML and TFS policies, procedures, systems and controls.
4. Inadequate systems to ensure continuous screening and monitoring of customers post onboarding.
5. Failure to adopt adequate systems or procedures to enable firms to identify single or multiple linked transactions exceeding the threshold of AED 55K.
6. Failure to obtain certified true copies of KYC documents when verifying customers identities.
7. Failure to update records or communicate MLRO departures to the RA, including lack of transition procedures.

## Key Findings – Regulatory Expectations, Good Practices and Areas for Improvement

### 1. Enhanced Customer Due Diligence (Enhanced CDD)

Regulatory Requirements	
<p>DNFBPs must have adequate procedures in place to conduct Enhanced CDD, where required, such as when dealing with high-risk customers, or a customer whose UBO is a PEP. Enhanced CDD includes, but is not limited to:</p> <ul style="list-style-type: none"> <li>○ Identifying the customer's source of funds and source of wealth by understanding the origin of the funds used for payments made to establish the relationship. For example, reviewing transactions on bank statements.</li> <li>○ Verifying the customer's source of funds and source of wealth by obtaining evidence of their wealth. For example, by reviewing multiple bank statements over a period of time to understand how a specific customer accumulated their wealth.</li> <li>○ Obtaining senior management approval to proceed with onboarding customers, prior to commencing the relationship, to demonstrate senior management's understanding of the money laundering risks that may be associated when dealing with such customers.</li> </ul>	
Good Practice Observed	Findings
<p>Many firms perform an initial Customer Risk Assessment (CRA) on potential customers, to determine the appropriate level of CDD required.</p> <p>Where firms apply Enhanced CDD, assessing current documents obtained from its customers to ensure that the relevant documents, to satisfy the Enhanced CDD requirements, are available. For example, up-to-date bank statements that provide evidence of the potential customers' source of funds and source of wealth.</p>	<p>Insufficient collection of evidence to determine a client's source of funds and source of wealth.</p> <p>Reliance on outdated bank statement does not provide sufficient evidence on the current status of customers source of funds and source of wealth, which results in delays or inability of the Firm to conduct adequate Enhanced CDD due to inadequate or incomplete documentation.</p>
<p>Obtaining senior management approval once a customer qualifies for Enhanced CDD, prior providing the final approval to proceed with onboarding the customer or potential customer.</p>	<p>Failure to obtain senior management approvals, prior accepting the onboarding of a high-risk customer.</p>

## 2. Business Risk Assessment

Regulatory Requirements	
<p>DNFBPs are required to conduct a Business Risk Assessment (BRA) to understand the money laundering and terrorist financing risks that are associated with the nature of its business. In doing so, DNFBPs are expected to:</p> <ul style="list-style-type: none"> <li>○ Align with the requirements under the ADGM AML Rules, which includes assessing TFS risks associated with its business, by including TFS as a distinct element of a firm's BRA.</li> <li>○ TFS risk includes, Proliferation Financing (PF) and Terrorist Financing (TF) risks. The Regulator is aware that some businesses vulnerability to TFS risks may be lower than other DNFBP businesses. However, to demonstrate the firm's understanding of TFS risks, firms must assess the TFS risks they may be exposed to.</li> </ul>	
Good Practices Observed	Findings
<p>Majority of the firms conducted a Business Risk Assessment (BRA) which included an assessment of TFS risks as part of their Business Risk Assessment (BRA).</p> <p>In assessing TFS risks firms included an assessment of Terrorist Financing (TF) and Proliferation Financing (PF) Risks as a distinct element.</p>	<p>Few firms failed to assess TFS risks as part of undertaking a Business Risk Assessment (BRA).</p>

### 3. Annual review of Firm's AML and TFS policies, procedures, systems and controls

Regulatory Requirements	
<p>DNFBPs are required to conduct an annual review of the effectiveness of their AML and TFS policies, procedures, systems and controls. In doing so, firms are expected to consider, at minimum:</p> <ul style="list-style-type: none"> <li>○ Regulatory developments,</li> <li>○ Emerging trends, and</li> <li>○ Any other regulatory matter, impacting the operations of the firm's business.</li> </ul> <p>Annual reviews may be carried out by a firm's MLRO, audit function or an independent third party. The results of the review must be presented to the firm's senior management and where gaps are identified, firms are expected to develop an internal mitigation plan highlighting the gaps identified and actions taken to close these gaps.</p>	
Good Practices Observed	Findings
<p>Many firms conduct an annual review, whether internally through the firm's compliance function or by a third-party provider, of the AML and TFS policies, procedures, systems and controls to assess their effectiveness.</p> <p>Where gaps are identified, a clear risk mitigation plan is deployed, approved by senior management, describing how the firm intends to mitigate those risks, signed off by senior management.</p>	<p>Some firms fail to carry out annual review of the effectiveness of a firm's AML and TFS policies, procedures, systems and controls, leaving their controls unassessed and potentially outdated.</p>

#### 4. Ongoing monitoring, including ongoing screening of clients

<b><u>Regulatory Requirements</u></b>	
<p>All DNFBPs must ensure that they have systems and controls in place to continuously monitor their customers, including their customer's transactions.</p> <p>While ongoing customer <u>transaction</u> monitoring may apply to certain DNFBP businesses i.e. Dealers of Precious Metals and Stones (DPMS), the Regulator expects that all DNFBPs have mechanisms in place to be able to continuously monitor their customers.</p> <p>For example, conducting ongoing screening on its customers is a crucial element that enables DNFBPs to identify any potential adverse media, including other information that may impact the overall customer risk assessment of a firm's customer.</p>	
<b>Good Practices Observed</b>	<b>Findings</b>
<p>Some firms have established controls mechanisms for ongoing monitoring of customers profile and activities.</p> <p>For example, for UBO's ensuring that the firm has in place tools to continuously monitor and identify any adverse media or allegation against BOs, in a timely manner.</p>	<p>Failure to adopt adequate systems in place to ensure continuous screening and monitoring of its customers, post onboarding.</p>
<p>For the DPMS sector in particular, adopting adequately system to continuously monitor its customers' transactions to enable the firm to identify single or multiple linked cash transactions exceeding the threshold of AED 55,000.</p>	<p>Failure to adopt adequate systems or procedures to identify single or multiple linked transactions exceeding the threshold of AED 55,000.</p>

## 5. Certification of KYC documents

<b><u>Regulatory Requirements</u></b>	
<p>All DNFBPs must identify and verify their customers. Identification of customers is generally done through a Know Your Customer (KYC) Form, while verification of customers is done through obtaining an identification to verify the identity of your customer.</p> <p>For example, passport copies, Emirates IDs and Memorandum of Associations.</p> <p>However, when obtaining these documents, if in person, these need to be original sighted to confirm that the originally documents were received. Where personal identity documents, such as a passport, identity card or other identification documentation cannot be reviewed in original form, the identification documentation provided should be certified as a true copy through a reliable resource.</p> <p>For example, registered lawyer, chartered accountant, government authority or notary public.</p>	
<b>Good Practices Observed</b>	<b>Findings</b>
<p>Many firms having adequate measures in place to ensure that all of the firm's customers have been identified and verified.</p> <p>For example, face to face interactions or reliance on third parties as highlighted in the ADGM AML Rules.</p>	<p>Some firms rely on uncertified copies of ID documents, not meeting regulatory standards.</p> <p>Inadequate verification practices undermine customer due diligence integrity.</p>



## 6. MLRO Arrangements

<b><u>Regulatory Expectations</u></b>	
<p>When registering a DNFBP in ADGM, the firm must appoint a Money Laundering Reporting Officer (MLRO), who is qualified and is able to discharge his duties in a manner acceptable under the ADGM AML Rules.</p> <p>This includes, but is not limited to, having sufficient knowledge and experience and a level of senior and independence within the firm. While such process acts as a mitigating factor for having an MLRO, it was noted that some DNFBPs have failed to notify the RA of departure of MLROs or providing incorrect contact information at registration which leads to failure to communicating appropriately with the firm.</p> <p>Such situations are unacceptable, as it leads to multiple failures in communication with the Regulator as well as failing to fulfil other requirements.</p> <p>For example, failure to register on the goAML system to file Suspicious Activity and Transactions Reports to the UAE Financial Intelligence Unit (FIU).</p>	
<b>Good Practices</b>	<b>Findings</b>
Most firms maintain up-to-date MLRO appointments and open communication with the RA.	<p>Failure to have succession plans for MLROs and Deputy MLROs leading to gaps in fulfilling the MLRO role in the firm.</p> <p>Relying on outsourced MLROs without proper transition procedures leads to gaps.</p>

## Recommendations

The RA recommends that DNFBPs:

1. Conduct thoroughly review the findings and requirements outlined in this report, ensuring their operational practices fully align with applicable AML/TFS obligations.
2. Perform a self-assessment to identify deficiencies and implement targeted remedial actions promptly, with a recommended completion timeframe of 3 months from receipt of the report.
3. Maintain and update regularly policies, procedures and controls to ensure ongoing compliance with the applicable AML/TFS obligations and consider any regulatory developments.

## Conclusion

The RA urges all DNFBPs to review and address issues through self-assessment. Firms are also advised to keep their senior management informed about their compliance status.

The RA remains committed to enforcing compliance and will not hesitate to take enforcement action against firms that are found to be non-compliant with applicable obligations.

## **Disclaimer**

This report is produced for general information purposes only. It is not comprehensive and does not constitute formal guidance. This report should be read together with the Financial Services and Markets Regulations 2015, the Anti-Money Laundering and Sanctions Rules and Guidance and applicable federal legislation.

You should seek appropriate professional advice if necessary to ensure your full understanding of your obligations under relevant regulations, rules and legislation. Regulations, rules and legislation may change on short notice, and you should ensure your understanding of the same remains up to date. This report may not reflect the most recent requirements set out in relevant regulations, rules and legislation.